dominion textile limited

annual report 1971

cover

Reproduction of one of 25 advertisements in the highly successful Tex-made "Castles in Spain" 1970-1971 advertising campaign.

contents

annual meeting

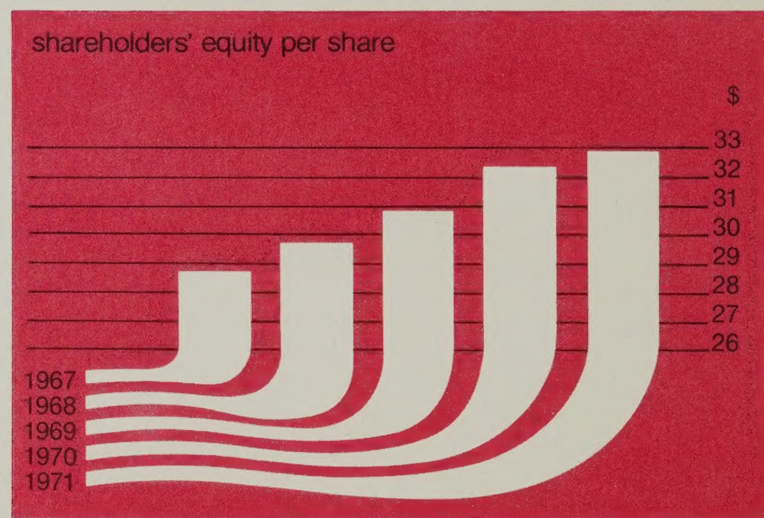
The annual meeting of shareholders will be held at 3:30 p.m. on Wednesday, October 20, 1971 at the office of the Company, 1950 Sherbrooke Street West, Montreal.

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire, case postale 6250, Montréal 101, Québec.

highlights

(in thousands of dollars)

	1971	1970
Sales	**$191,357**	$167,849
Income before income taxes	**8,029**	4,849
Income taxes	**3,748**	1,537
Net income before extraordinary item	**4,281**	3,312
Tax credit resulting from loss carry forward	**899**	1,338
Net income for the year	**5,180**	4,650
Per common share		
Net income before extraordinary item	**$ 1.63**	$ 1.25
Net income after extraordinary item	**1.97**	1.76
Dividends	**.80**	.60
Depreciation	**$ 10,046**	$ 9,590
Interest on borrowed money		
Long term	**2,736**	2,869
Short term	**2,393**	2,654
Additions to fixed assets	**6,662**	4,834
Number of employees	**10,235**	9,613
Salaries, wages and employee benefits	**$ 64,973**	$ 59,929



report to shareholders

the year's results

Viewed against the background of the general economic and monetary problems of the past eighteen months, there is reason to be pleased with the financial results of the year's operations, highlights of which appear on the opposite page.

Consolidated sales attained a record level of $191.4 million, 14% higher than a year ago. This record was achieved through an increase in most sectors of our traditional business and with the integration and rapid expansion of the more recently acquired subsidiaries.

Net income for the year, before the tax credit resulting from a loss carry forward from 1967, was $4.3 million or $1.63 per common share, compared with $3.3 million or $1.25 per common share for the 1970 fiscal year—a year to year gain of 30%.

Net income after extraordinary item amounted to $1.97 per common share in comparison with earnings of $1.76 per common share in 1970.

The increased income was due largely to the greater volume of sales without a corresponding increase in overhead; and to lower raw material costs, reduced financial charges and a continuing improvement in plant operating efficiency during the year.

acquisitions

In line with our stated policy of participating in new developments in a substantial manner where the opportunities for growth and profit are clearly indicated, an investment of $4.3 million was made during the year by way of acquisition of subsidiaries. The major portion of this money was invested in the double knit field.

Early in the year we announced that Dominion Textile had purchased National Distillers & Chemical Corporation's interest in Lana Knit Canada Limited effective July 1, 1970, making it a wholly-owned subsidiary. We later announced the acquisition of a controlling interest in Fireside Fabrics (Canada) Ltd. and its subsidiaries Exquisite Knitting Mills (Canada) Ltd. and Halifax Corduroy Ltd., three well-known companies in the fields of double knit and corduroy fabrics. The acquisition of Exquisite and Lana Knit established us as one of the major producers of knitted fabrics in this country. There is an expanding demand for the corduroy fabrics of Fireside and Halifax in both domestic and export markets.

textile policy

During our 1971 fiscal year, some progress in the development of the Federal Government's textile policy could be discerned. Legislation was passed confirming the creation of the Textile and Clothing Board, improving procedures for detecting and preventing dumping and evasion of quantitative restraint agreements, and providing technical and promotional support to the industry.

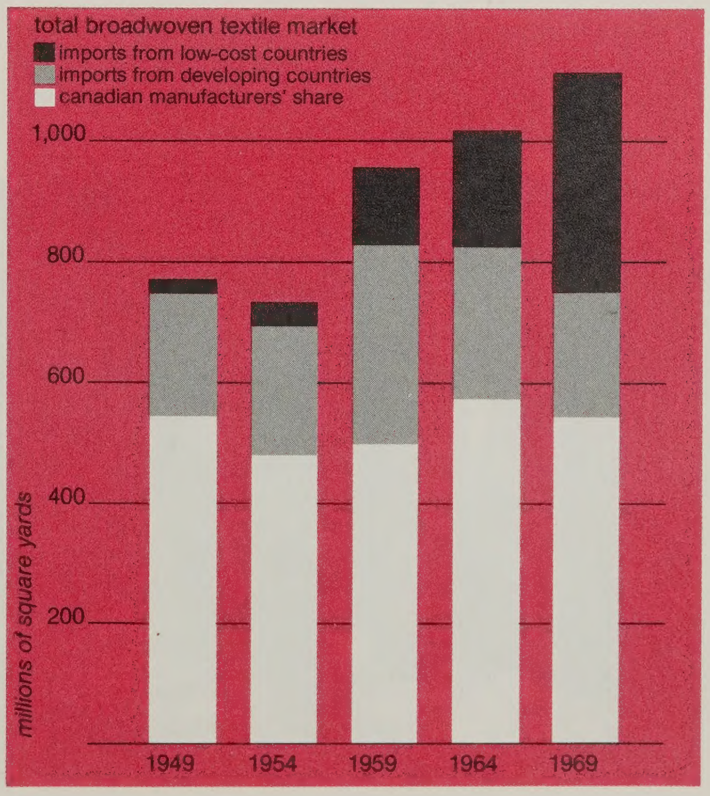
The Board held two inquiries during the year. The first study dealt with imports of cotton yarn and polyester/cotton blend yarns from low-cost countries and the second was concerned with shirtings from the same sources. The Board subsequently made recommendations to the Government which could have a favourable impact on cotton yarn producers in Canada.

It is of particular interest that the Government has given notice to some 22 countries to negotiate voluntary restraints following the Textile and Clothing Board's findings. The Government's reaction in subsequently making use of its ability to take unilateral action in the case of any countries not arriving at a voluntary restraint will be a clear indication of its intentions insofar as concrete implementation of the announced policy is concerned.

The decision in the yarn case, of course, has some limitations. We had hoped for quota periods of longer than one year in order to make planning more effective. It is also unfortunate that polyester/cotton yarns were not included in this decision as they are becoming of great importance to the industry.

Additional elements in the overall pattern of the textile policy are being intently monitored by the Canadian industry. The Board's report on shirtings is awaited with great interest. The recent Japanese-Canadian trade negotiations, as well as the forthcoming negotiations with numerous low-cost countries must also be evaluated because of their implications for the continued viability and access to growth of the Canadian industry. Current trade negotiations between the United States and Japan and many of the other low-cost countries must also be carefully assessed for their effects on our markets.

The graph below shows clearly the penetration imports have made into the total Canadian textile market and particularly the dramatically increasing inroads made by low-cost countries.



directors

In October 1970, the Company learned with deep regret of the death of W. Culver Riley of Winnipeg. Mr. Riley, who had been a director of Dominion Textile since July 1966, was a recognized leader in Canadian business and in his community. His broad experience and counsel were of great value to the Company throughout the all too short period he served as a director.

We are pleased that Kenneth A. White, President of The Royal Trust Company, has consented to stand for election to the Board of Directors of the Company at the forthcoming Annual Meeting.

outlook

Although many of the economic and competitive problems confronting us a year ago are still with us, we believe that the Company has proven its ability to adapt and meet difficulties as well as the changing requirements of the many markets it serves.

Few areas of Canadian manufacturing industry however efficient are immune to the effects of imports from low-cost countries. Some who thought they were, now realize the extent of their difficulties and the need for a rational industrial policy within which Canadian industry can plan and grow.

The management of Dominion Textile is only too well aware of the very narrow margins afforded manufacturers in this industry due to the disruption of the market by low-cost countries. The key to success is the operation of plants at their full productive capacity since the burden of overhead and capital investment today is such that idle time, production cutbacks and layoffs can quickly translate into plant closures. These facts have been emphasized constantly in our deliberations with Government authorities.

At home, we have to compete in a market that is virtually wide open to foreign competitors, while at the same time we are faced with restricted opportunities in export markets. To underscore this point our growing export sales will be adversely affected in the current year by the United Kingdom's decision to increase cotton textile tariffs on January 1, 1972.

Furthermore, the relatively high level that the Canadian dollar has maintained in relation to the United States dollar makes imports of textiles into this country even more damaging and at the same time, reduces the profitability of our export sales. It is difficult to measure the total effect of the floating dollar on our business, but on balance and over the longer term a lower value than has been the case in recent months would be preferable.

We are hopeful that the Canadian economy will improve during the next fiscal year and we are encouraged by the appreciation in Ottawa of the particular problems faced by our industry. Our plants, equipment and technology are in excellent condition and the management and employees continue to work in the spirit of cooperation and goodwill which prevailed throughout the year under review.

Submitted on behalf of the Board,

E. F. KING
Chairman of the Board

R. H. PEROWNE
President

Montreal, Quebec,
August 4, 1971.

Left: E. F. King
Right: R. H. Perowne

report on the year's operations

marketing

At $191.4 million, sales for the year increased 14% over the previous year and were the highest in the Company's history.

This record was achieved in the face of vigorous competitive conditions and in an economy that was less than buoyant. It demonstrated our ability to respond quickly to constantly varying market demands for cotton and the various man-made fibres and justifies our policy of diversification and expansion into profitable growth areas of textiles. We were, therefore, well based during the year to supply a wide variety of knits and woven fabrics for apparel, home and industry.

The following table shows a comparison of our sales mix for the past two years:

	(Millions of Dollars) 1971	1970
Apparel fabrics	**$ 75.6**	$ 53.6
Cotton and blended yarn	**29.5**	25.8
Consumer products	**53.1**	52.3
Industrial fabrics	**33.2**	36.1
	$191.4	$167.8

With the addition of new products geared to a growing consumer fashion awareness our sales of fabrics for the apparel trades in cotton, man-made fibres, wool and blends increased substantially and now represent 40% of total sales. The increase in sales of apparel fabrics over 1970 is attributable to the volume of our new subsidiaries together with a resurgence in demand for cotton fabrics in the jean and outerwear trades catering to the volatile style markets of adult and youth fashion.

The demand for Fireside's corduroy fabrics during the year fulfilled our expectations and continues strong in the current year. The planned coordination of the resources of Fireside and Dominion Textile's Magog dyeing and finishing operations will enable us to meet the expanding demand for these fabrics.

The newly-acquired Lana Knit and Exquisite have participated actively in the dynamic growth of the knit goods market with a great variety of fabrics and styles. Through intensive fabric development and styling efforts coupled with a large-scale, integrated operation, the Company will continue to compete successfully with other domestic producers of knits. However, with imports of these fabrics doubling in each of the past several years, representations are being made to the Federal Government for measures that will ensure the viability of this emerging domestic industry.

Sales volume of cotton and blended yarn this year increased by 14% reflecting a higher demand from knitters and a greater volume of export sales.

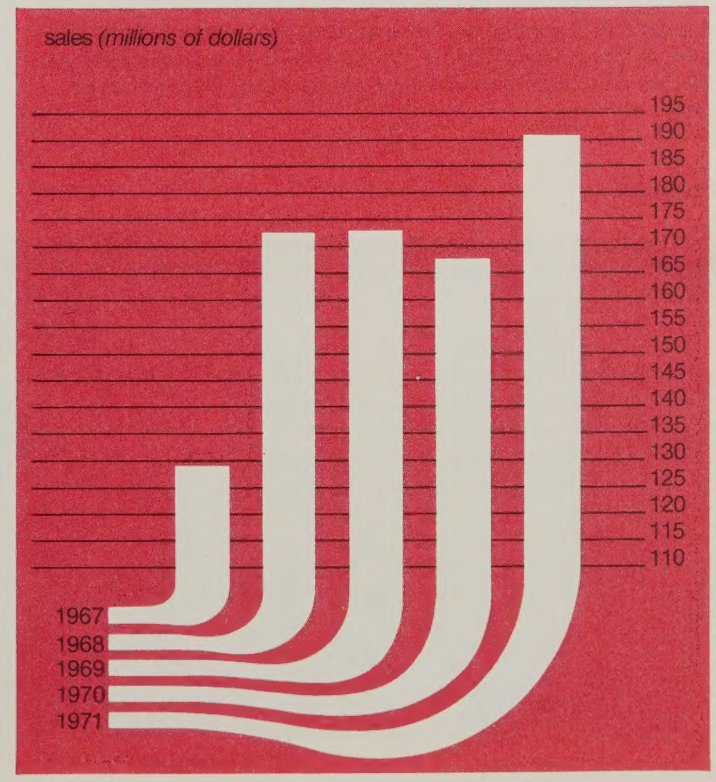
Sales of consumer products comprised of sheets, pillow slips, blankets, towels, draperies and knitted apparel were slightly ahead of the previous year. These results were achieved despite the low level of consumer spending. This area of our business would benefit substantially from any pick-up in housing construction.

Our consumer product sales include those of Caldwell Linen Mills Limited, producers of terry towels, towelling and related products. Sales of this subsidiary showed a significant improvement over the previous year.

The lengthy strike in the automotive industry and a lower level of industrial activity generally in Canada led to a disappointing industrial fabrics year. In addition, we are concerned over the growing number of imported motor vehicles from Japan and European countries and find it increasingly difficult to maintain a profitable level of activity at our Drummondville plant from which we supply the automotive, rubber and related industries.

While our sales efforts in world markets resulted in a new high export sales volume of $17 million, principally to the United Kingdom, with corduroy, tire cord and yarn supporting our previously established activities in apparel and consumer goods, the British Government's decision to impose a 15% tariff on cotton goods effective January 1, 1972 will make it difficult to sustain sales in that market.

In summary, we recorded a continuation of the trend of sales expansion which began in the fourth quarter of 1970. In each quarter this year results were ahead of the same period a year earlier. Furthermore, except for the September quarter, each quarter showed record sales volume.



manufacturing

Manufacturing activity was sustained at a high level throughout the year. Our five yarn plants and new double knit facilities were kept particularly busy to supply the market demand.

We have continued our program of upgrading plant, machinery and methods to maintain our operations at the highest level of efficiency and to improve our ability to respond quickly and profitably to changing market demands.

The modernization and conversion of our Domil Yarn Plant to the production of blend yarns has contributed to our improved performance this year and we are in excellent position to maximize our potential in this field.

The new tire cord dip unit at Drummondville has progressed on schedule and is now well along with preliminary trials and commercial production will begin in the early fall.

In 1971 we continued the automation and expansion of our Mount Royal Dyehouse. This program will be completed during the autumn months and will enhance our leadership position in the sale of dyed cotton and blend yarns.

Our finishing plants at Magog and St. Timothée (Beauharnois Plant) have strengthened their organizations in the mechanical, procedural and personnel areas resulting in substantial operational improvement.

Significant strides were made during the year in effecting a reduction in fixed overhead and other operating costs of Penmans. Continuing the program of rationalization and realignment, three plants were closed in the year with ongoing production transferred to other plants in the company.

A substantial expansion of the double knit segment of the Company is being implemented. Commitments to acquire additional double and single knit machinery were made throughout the year.

financial

The highlight in this year's improved financial results was the expansion of our sales volume in both established and newly acquired businesses.

Lana Knit Canada Limited and Fireside Fabrics (Canada) Ltd. together with its two subsidiary companies, Halifax Corduroy Ltd. and Exquisite Knitting Mills (Canada) Ltd., are consolidated in the accounts for the first time; Lana Knit for the whole year, and Fireside from October 19, 1970.

Income before income taxes of $8 million was 4.2% of sales compared with $4.8 million or 2.9% of sales in the previous year.

Expenses of $183.7 million were 96% of sales. In the previous year expenses of $164.3 million represented 97.9% of sales. A comparison of the major items as a percentage of total expenses is as follows:

	1971	1970
	%	%
Raw materials	**36.2**	34.3
Labour	**22.8**	23.2
Supplies	**7.1**	7.1
Other manufacturing expenses	**15.4**	15.8
Depreciation	**5.5**	5.8
Selling and administration expenses	**10.6**	10.5
Financial expenses	**2.4**	3.3
	100	100

Among the factors leading to the improved margins was the continuing effort to increase the effectiveness and efficiency of our operations at every stage and to control or reduce the fixed elements of our costs by a careful ongoing review and appraisal of our budgets, forecasts and operating results. Lower average borrowings and a sharp drop in short term interest rates during the second half of the fiscal year resulted in a substantial reduction in total interest costs compared with the previous year.

The appreciation of the Canadian dollar had the effect of reducing the cost of our purchases of raw cotton, textile machinery and certain other supplies. In the coming year however, much of this advantage will likely be off-set by higher raw cotton prices.

A loss of $275,000 on sale of fixed assets and marketable securities has been deducted in calculating the income for the year. The corresponding item in the previous year was a profit of $637,000. The loss was attributable to the sale of the Montreal Cottons Specialty Plant at Valleyfield. The buildings, which had been a landmark in the city for almost a century, were sold to a developer to be demolished and replaced by a modern commercial centre. The plant had not been in operation since 1967. By this transaction the Company has eliminated annual fixed expenses of $160,000, and in future will receive rental income from the lease of the land.

Net income for the year was $5.2 million or $1.97 per share compared with $4.6 million or $1.76 per share for the previous year. Net income for 1971 includes an extraordinary amount of $899,000, equal to 34 cents per common share resulting from the recovery of the remainder of the tax benefit on the 1967 loss carry forward against current income; $1,338,000, equal to 51 cents per share, was recovered in 1970. This benefit will not be available to the Company in future years.

For net income purposes Dominion Textile is now in a fully taxed position. Cash flow will still benefit as $10.5 million in deferred taxes remains to be applied against future tax payments.

Cash flow as indicated by the Consolidated Statement of Source and Application of Funds improved from $14.4 million in the fiscal year 1970 to $16.4 million in 1971, an increase from $5.53 to $6.31 per common share.

The Company's working capital increased during 1971 by $3.9 million to $52.3 million. The working capital ratio at year end was 2.03 to 1, virtually unchanged from last year. The increase in accounts receivable and inventories reflects the inclusion of Lana Knit and Fireside and increased sales activity.

Spending on fixed assets during the year totalled $6.7 million compared with $4.8 million in the previous year. Capital expenditures of about $7 million are anticipated during the current year.

The third installment due on the serial debentures was paid on April 15, 1971, and a similar amount has been included in current liabilities in anticipation of the payment due in 1972. During the year $1,010,000 of our 5⅝% debentures was purchased for sinking fund purposes, this being $50,000 in excess of the amount required. In total we have now accumulated $2.9 million of these debentures in anticipation of future sinking fund requirements. The sinking fund requirement for the 6¾% debentures becomes operative in 1972, and we have purchased $480,000 which is ahead of our annual requirement of $375,000.

Shareholders' equity per common share was $32.72 at June 30, 1971, up from $32.10 a year earlier. Retained earnings increased by $1.6 million after paying dividends of $2.1 million and writing off $1.5 million representing the net excess of the cost of the Company's investment in subsidiary companies over the aggregate net assets of those companies.

During the past year, we paid dividends totalling $0.80 per share of common stock and $7.00 per share of preferred stock. The common dividend included a special payment of $0.20 in August 1970.

organizational changes

The problems of managing and directing the affairs of a diversified enterprise necessitate an ongoing re-appraisal of its organization.

With this in mind, the senior managerial functions in the Company were restructured during the year with the appointment of three Group Vice-Presidents to share with the President and Chairman of the Board the responsibilities of coordinating and directing the progress of the Company. The Group Vice-Presidents reporting to the President are:

Thomas R. Bell, Group Vice-President, Operations, responsible for all marketing and manufacturing activities of Dominion Textile Limited.

Charles A. McCrae, Group Vice-President, Finance, with accounting, audit, credit, finance and Management Information Systems coming under his jurisdiction.

Arthur P. Earle, Group Vice-President, Services, responsible for engineering, supply and distribution services, warehousing and quality control, as well as staff services in the Company.

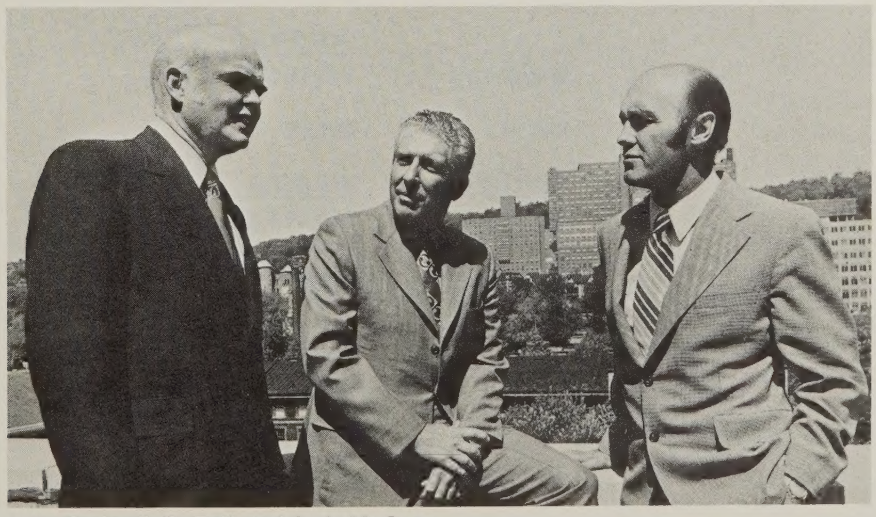
In addition, the following new appointments were made:

Robert M. Wilson, Vice-President, Marketing;

Lawrence G. McDonough, Vice-President, Manufacturing, responsible for both grey and finishing plants; and,

William J. Veitch, Vice-President, Administrative Services—Operations,

all reporting to Mr. Bell.



A. P. Earle, T. R. Bell and C. A. McCrae

Hubert Chatelois was appointed Vice-President, Grey Plants reporting to Mr. McDonough.

George F. Michals was appointed Vice-President, Subsidiaries with responsibility for all subsidiary companies. However, in the new year he will be in overall charge of our rapidly developing double knit operations.

Alex R. McAslan was appointed Comptroller and William N. Gagnon was appointed Treasurer of the Company.

Norman E. Kenrick, former Vice-President, Administration, reached retirement age in December 1970 after contributing 30 years of valuable service to the Company.

The untimely death in February 1971 of Charles W. MacLean, President of Penmans Limited, deprived us of a capable and valued member of the corporate executive. Mr. MacLean served the Company in a number of capacities and his high standard of integrity and leadership will be greatly missed.

Robert E. Evans was appointed President to succeed Mr. MacLean. Mr. Evans is a highly qualified executive in the knitting field and the affairs of Penmans will be in competent hands under his leadership.

employee relations

On June 30, 1971, companies in the Dominion Textile group employed 10,235 people compared to 9,613 people at June 30, 1970, and a total of $65 million in salaries, wages and employee benefits was paid during the year.

Collective labour agreements at the majority of our plants will terminate during February 1972.

A wide variety of programs, all designed to improve communications and the development of personnel within the corporation were continued during the year.

consolidated statement of income

for the year ended June 30, 1971

	1971	1970
Revenue		
Sales	$191,356,959	$167,848,706
Income from marketable securities and investments	381,735	395,602
Equity in net income of 50% owned companies	241,363	264,977
	191,980,057	168,509,285
Expenses		
Operating and administrative	168,500,221	149,183,682
Depreciation	10,046,250	9,589,966
Interest		
Long term debt	2,736,251	2,869,040
Other	2,393,194	2,653,959
	183,675,916	164,296,647
Loss (profit) on sale of fixed assets and marketable securities	275,325	(636,641)
	183,951,241	163,660,006
Income before income taxes	8,028,816	4,849,279
Income taxes (Note 3)	3,748,408	1,536,876
Net income before extraordinary item	4,280,408	3,312,403
Tax credit resulting from loss carry forward (Note 3)	899,146	1,338,215
Net income for the year	$ 5,179,554	$ 4,650,618
Per common share, after preferred dividends		
Before extraordinary item	$ 1.63	$ 1.25
After extraordinary item	$ 1.97	$ 1.76

consolidated statement of retained earnings

for the year ended June 30, 1971

	1971	1970
Retained earnings at beginning of year	$63,058,516	$60,039,691
Net income for the year	5,179,554	4,650,618
	68,238,070	64,690,309
Net excess of the cost of the Company's investment in subsidiary companies over the aggregate net assets of such subsidiaries	1,455,373	—
	66,782,697	64,690,309
Deduct:		
7% Preferred dividends	59,236	74,329
Common dividends		
$0.80 per share in 1971, $0.60 in 1970	2,076,619	1,557,464
	2,135,855	1,631,793
Retained earnings at end of year	$64,646,842	$63,058,516

dominion textile limited and subsidiary companies

consolidated balance sheet

as at June 30, 1971

assets

	1971	1970
current assets		
Cash and short term deposits	**$ 3,053,808**	$ 7,661,766
Accounts receivable	**33,646,794**	26,986,441
Inventories—at lower of cost and net realizable value (Note 1)	**65,095,435**	59,650,202
Prepaid expenses	**1,534,367**	860,374
	103,330,404	95,158,783
investments and advances (Note 2)	**12,130,689**	14,653,930
fixed assets—at cost		
Land and buildings	**58,058,880**	59,205,841
Machinery and equipment	**127,984,695**	121,776,078
	186,043,575	180,981,919
Less: Accumulated depreciation	**135,054,816**	128,774,402
	50,988,759	52,207,517
deferred charges		
Income taxes (Note 3)	**10,471,796**	11,877,920
Unamortized debenture expense	**186,389**	212,069
Other	**377,256**	719,930
	11,035,441	12,809,919
	$177,485,293	$174,830,149

On behalf of the Board:

E. F. KING, Director

R. H. PEROWNE, Director

liabilities

	1971	1970
current liabilities		
Bank indebtedness (Note 4)	$ 7,042,841	$ 5,013,704
Short term notes	25,260,000	27,211,700
Accounts payable and accrued liabilities	13,088,844	10,227,879
Dividends payable	399,377	400,198
Income and other taxes	2,970,997	1,745,098
Long term debt due within one year	2,220,033	2,105,007
	50,982,092	46,703,586
long term debt (Note 5)	40,028,559	43,267,359
minority interest in subsidiary companies	719,412	645,500

shareholders' equity (Note 7)

	1971	1970
capital stock		
7% Cumulative Preference		
Authorized—20,000 shares $100 par value		
Outstanding—8,297 shares (1970—8,765 shares)	829,700	876,500
Common		
Authorized—7,500,000 shares no par value		
Issued—2,595,774 shares	20,278,688	20,278,688
retained earnings	64,646,842	63,058,516
	85,755,230	84,213,704
	$177,485,293	$174,830,149

consolidated statement of source and application of funds

for the year ended June 30, 1971

	1971	1970
funds provided		
Net income for the year	**$ 5,179,554**	$ 4,650,618
Add non cash items:		
Depreciation	**10,046,250**	9,589,966
Deferred income taxes	**1,214,042**	187,016
	16,439,846	14,427,600
Decrease (increase) in marketable securities and advances	**1,845,688**	(905,669)
Working capital of acquired subsidiaries	**1,262,368**	(272,928)
Other	**862,736**	(1,179,182)
	$20,410,638	$12,069,821
funds applied		
Repayment of long term debt	**$ 3,408,005**	$ 2,617,924
Additions to fixed assets	**6,661,750**	4,833,522
Investment in subsidiary and affiliated companies	**4,311,913**	1,931,005
Dividends	**2,135,855**	1,631,793
	16,517,523	11,014,244
increase in working capital	**3,893,115**	1,055,577
	$20,410,638	$12,069,821

auditors' report

The Shareholders,
Dominion Textile Limited.

We have examined the consolidated balance sheet of Dominion Textile Limited and subsidiary companies as at June 30, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. For Dominion Textile Limited and those of the subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the remaining subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Chartered Accountants.

Montreal, Quebec.
July 30, 1971.

accounting policies

applicable to the consolidated financial statements for the year ended June 30, 1971

The following accounting policies are used by the Company in the preparation of the consolidated financial statements.

principles of consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies, with provision for the interest of minority shareholders.

During the year, the Company acquired control of Lana Knit Canada Limited and Fireside Fabrics (Canada) Ltd. and its subsidiary companies. The consolidated financial statements include the accounts of these subsidiaries.

The acquisitions of all subsidiary companies are accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control. The net excess of the cost of the Company's investment in subsidiary companies over the aggregate net assets has been written-off against retained earnings.

On consolidation all significant inter-company items are eliminated.

foreign exchange

Assets and liabilities in foreign currencies are converted at the exchange rates prevailing at the balance sheet date. Income and expenses in foreign currencies are converted at the actual exchange rates prevailing at the dates of transactions or at average exchange rates for the year.

consistency

The accounting principles are consistently followed from year to year except for occasional changes to reflect improved accounting practices, in which case the effect of any material change is duly indicated.

inventory valuation

Material and supplies in inventories are valued at the lower of average cost and net realizable value. The cost of work-in-process and finished goods inventories includes raw material, direct labour and certain manufacturing overhead expenses. Adequate provision is made for slow-moving and obsolete inventories.

marketable securities

Marketable securities are valued at average cost and when they are sold, the resulting gain or loss is included in net income.

investments—50% owned companies

The investment in 50% owned companies is carried at the Company's equity therein and the Company's share of the net income or loss of such companies is recorded in the period in which it is incurred.

fixed assets and depreciation

Fixed assets are stated at historical cost. Depreciation is provided on a straight-line basis at rates which amortize the cost of buildings over a period of approximately twenty-five years and that of machinery and equipment over approximately ten years.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in net income.

pensions

The Company provides pensions for its employees. The hourly-paid employees are covered by non-contributory plans. There are a number of pension plans for salaried employees of the Company and its subsidiaries both of a contributory and a non-contributory nature. All pension plans are trusteed and are being funded. The current service cost portion of these plans is absorbed in the period in which the service that gives rise to the entitlement is rendered. The present value of the unfunded past service pension liability is estimated to be $4,400,000 at June 30, 1971 and is expected to be amortized on a systematic basis over the next fourteen years.

Pension payments made to retired employees who are not covered by these plans are charged to operations when paid.

notes to consolidated financial statements

June 30, 1971

note 1—inventories

The main inventory classifications are as follows:	1971	1970
Raw materials	**$14,518,487**	$ 9,353,432
Work in process, including greys in bales for further processing	**23,903,334**	21,579,118
Finished goods	**23,429,633**	24,924,231
Supplies	**3,243,981**	3,793,421
	$65,095,435	$59,650,202

note 2—investments and advances

	1971	1970
Marketable securities—at average cost (market value 1971—$6,811,848 1970—$6,626,000)	**$ 7,303,541**	$ 8,854,879
Investment in 50% owned companies—valued at the equity of Dominion Textile Limited in such companies*	**2,795,520**	3,473,073
Other investments and advances—at cost	**2,031,628**	2,325,978
	$12,130,689	$14,653,930

*During the year, the Company acquired the remaining 50% of the shares of Lana Knit Canada Limited. Because this company is now a wholly-owned subsidiary rather than an "affiliate" its financial statements are consolidated.

note 3—income taxes

Current:

The 1971 income tax provision has been computed on the reported income for the year after adjusting items which are not subject to tax such as dividends and loss on sale of fixed assets and marketable securities. Of the total provision of $3,748,408, taxes actually payable are $1,636,584.

The balance of income tax benefits of $899,146 relating to the 1967 loss carry forward which was not previously recorded in the accounts, was realized and included in the consolidated statement of income as an extraordinary item.

Deferred:	1971	1970
Deferred income tax charges result from:		
(a) Providing more depreciation in the accounts than claimed for income tax purposes	**$10,642,896**	$ 9,907,844
(b) Recording the income tax benefits which are expected to be realized in future years by carrying forward the tax losses of prior years to reduce future taxable income	**1,049,140**	3,413,933
Both of these benefits are contingent on earning future profits (which in management's view is virtually certain) against which the deferred charges may be applied.		
(c) Other	**(1,220,240)**	(1,443,857)
	$10,471,796	$11,877,920

note 4—bank indebtedness

Bank loans of $6,795,000 to certain subsidiary companies are secured by assignment of inventories and/or accounts receivable.

note 5—long term debt

	1971	1970
5⅝% Sinking Fund Debentures, Series A due March 31, 1988 Authorized and issued $32,000,000 less purchased for retirement	**$27,180,000**	$28,190,000
Sinking fund payments of $960,000 are due March 31, in each of the years 1972 to 1987. (The Company has purchased $2,900,000 principal amount of debentures in anticipation of these payments).		
6¾% Serial Debentures, Series B final instalment of $1,875,000 payable April 15, 1972 Authorized and issued $7,500,000 less amounts repaid	**1,875,000**	3,750,000
6¾% Sinking Fund Debentures, Series B due April 15, 1990 Authorized and issued $12,500,000 less purchased for retirement	**12,020,000**	12,500,000
Sinking fund payments of $375,000 are due April 15, in each of the years 1972 to 1989. (The Company has purchased $480,000 principal amount of debentures in anticipation of these payments).		
Other mortgages and secured loans	**1,173,592**	932,366
	42,248,592	45,372,366
Deduct: Amounts due within one year— included in current liabilities	**2,220,033**	2,105,007
	$40,028,559	$43,267,359

The debentures are secured by a floating charge on all the assets (except real and immovable properties) of the Company and certain subsidiaries.

note 6—statutory information

	1971		1970	
	Number	**Amount**	Number	Amount
Remuneration of Directors and Officers				
As Directors of the Company	**11**	**$ 39,550**	11	$ 35,750
As Officers of the Company	**26**	**956,485**	24	833,012
Officers who are also Directors	**3**		3	

note 7—restrictions under trust deed

The Deed of Trust and Mortgage relating to the Debentures contains certain restrictions, customarily found in Deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payment of dividends and the reduction of capital. At June 30, 1971 the amount of shareholders' equity not restricted under the terms of the Trust Deed was $14,900,000.

ten-year summary

in thousands of dollars

	1971	1970	1969	1968
statement of income				
Sales	**$191,357**	$167,849	$173,270	$172,214
Income (loss) before income taxes	**8,029**	4,849	3,332	(1,736)
Income taxes (credit)	**3,748**	1,537	(1,765)	(6,190)
Tax credit resulting from loss carry forward	**899**	1,338	—	—
Net income (loss)	**5,180**	4,650	5,097	4,454
balance sheet				
Working capital	**52,348**	48,455	47,400	45,206
Working capital ratio	**2.03**	2.04	2.03	1.90
Additions to fixed assets	**6,662**	4,834	2,773	3,333
Provision for depreciation	**10,046**	9,590	9,556	9,547
Long term debt	**40,029**	43,267	45,440	49,535
shareholders' equity				
Shareholders' equity	**85,755**	84,214	81,566	78,201
Net income (loss) as a percentage of shareholders' equity at the beginning of the year	**6.15**	5.70	6.52	5.88
per common share				
Net income (loss)	**1.97**	1.76	1.93	1.68
Cash flow	**6.31**	5.53	4.90	2.87
Dividends	**.80**	.60	.60	.80
Shareholders' equity	**32.72**	32.10	30.94	29.61
number of shareholders	**6,602**	6,947	7,128	7,098

1967	1966	1965	1964	1963	1962
$129,585	$178,324	$161,601	$151,585	$137,324	$124,224
(10,537)	14,302	12,363	13,266	11,323	9,351
(6,998)	5,119	6,101	6,709	5,292	4,201
—	—	—	—	—	—
(3,539)	9,183	6,262	6,557	6,031	5,150
43,376	40,444	58,946	44,552	44,576	42,488
1.71	1.89	3.89	2.83	3.11	2.63
19,314	31,139	19,765	10,564	7,104	5,900
9,257	8,713	7,796	7,776	5,308	4,830
52,000	32,000	37,450	5,900	6,350	7,940
75,743	80,651	74,489	71,517	68,128	64,920
(4.39)	12.33	8.76	9.62	9.29	8.30
(1.40)	3.50	2.39	2.50	2.30	1.96
1.21	7.13	5.40	5.51	4.35	3.82
1.00	1.25	1.20	1.20	1.00	.80
28.65	30.53	28.30	27.14	25.86	24.59
6,766	6,790	6,856	6,737	6,970	7,111

plants, subsidiaries and associated companies

plants

sales yarn

Combed and carded; cotton, man-made and wool; natural, bleached and dyed
Domil Yarn, Sherbrooke; **Long Sault Yarns,** Long Sault, Ont.; **St. Anns,** Montreal; **Salaberry,** Valleyfield; **Tremont Worsted,** Montreal; **Mount Royal Dyehouse,** Montreal.

greige fabrics

Domil Fabric, Sherbrooke, Quebec
Fabrics for men's and women's sportswear, rainwear and outerwear; shirting; filament mattress ticking and chafer fabrics.

Drummondville, Drummondville, Quebec
Tire cord and automotive fabrics, ducks, industrial hose and belt fabrics, abrasion fabrics, industrial grey cloth, chafer fabrics.

Gault, Valleyfield, Quebec
Drills, twills, cotton drapery fabrics.

Long Sault Fabrics, Long Sault, Ontario
Polyester/cotton broadcloths, batistes, outerwear and sportswear fabrics.

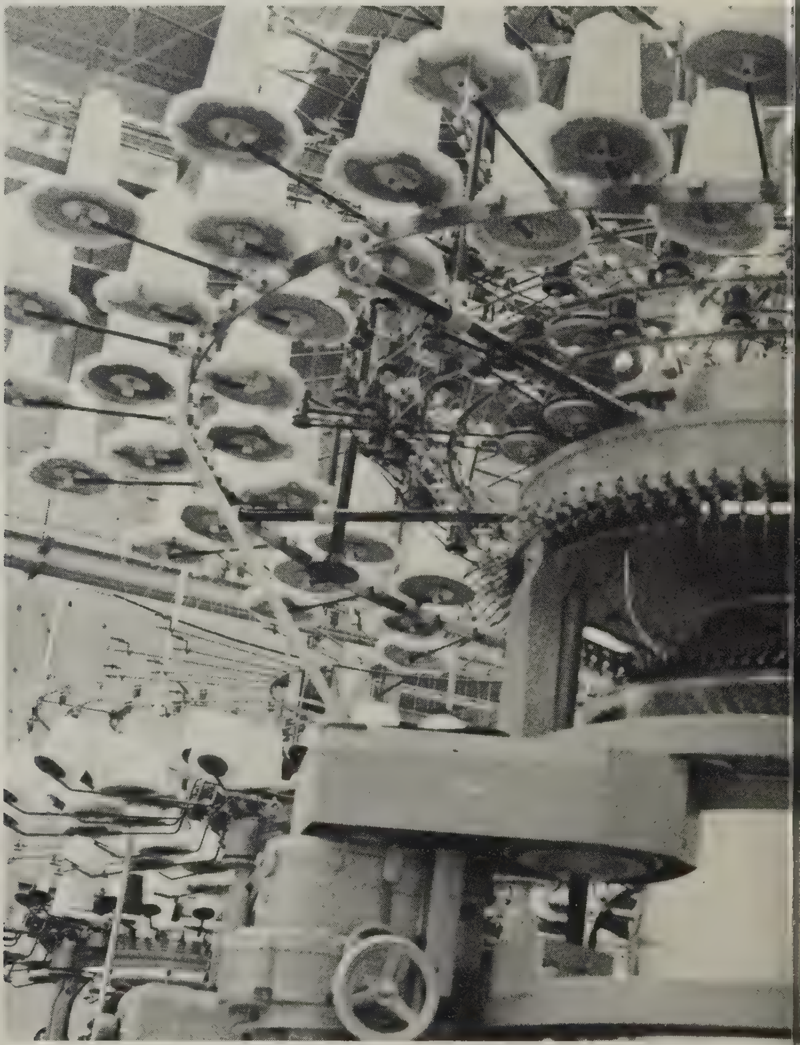
Magog Cotton, Magog, Quebec
Cotton broadcloths; cotton and polyester/cotton print cloth and broadcloths; industrial fabrics.

Montmorency, Montmorency, Quebec
Cotton and man-made sales yarn; flannelette blankets, industrial grey cloth, towelling and twines.

Mount Royal Cotton, Montreal, Quebec
Bag cloth, soft filled sheeting, buffing cloth, industrial fabrics and print cloth.

Richelieu Fabrics, St. Jean, Quebec
Cotton and polyester/cotton broadcloths, twills, casement sateens, poplins and pocketing.

Sherbrooke Sheeting, Sherbrooke, Quebec
Cotton and polyester/cotton sheeting for sheets and pillow slips and for chenille; industrial fabrics.



converting and finishing

Magog Print Works, Magog, Quebec
"A" Division: bleaching, dyeing, printing and finishing cotton and man-made fabrics
"B" Division: sheets, pillow slips, towels and blankets.

Beauharnois Finishing, St. Timothée, Quebec
Bleaching, dyeing and finishing: cotton and man-made fabrics.

sales and service

Dominion Textile Company (U.K.) Limited, London, England
Company's selling agent for United Kingdom and Europe.

Howard Cotton Company, Memphis, Tennessee
Purchases raw cotton for the Company and subsidiaries in world markets.

Textile Management Services Inc., Montreal, Quebec
Provides industrial engineering and in-process quality control services as well as undertaking general management consulting assignments for the Company and its subsidiaries.

subsidiaries

Caldwell Linen Mills Limited, Iroquois, Ontario
T. Roy Hastings, Vice-President and General Manager
Terry towels and towelling, dish towels and bath mats.

Elpée Limited, Shawinigan Sud, Quebec
Jean-Paul Perras, President
Yarns of man-made fibres for tufted carpets and upholstery fabrics.

Fireside Fabrics (Canada) Ltd.
Exquisite Knitting Mills (Canada) Ltd.
Halifax Corduroy Ltd., Montreal, Quebec
John Z. Roman, President
Corduroy fabrics, polyester double knit fabrics.

Jaro Manufacturing Company Limited, Woodstock, Ontario
Bjarne Jacobsen, Executive Vice-President
Non-woven fabrics of man-made fibres.

Lana Knit Canada Limited, Grand'Mère, Quebec
David Friedlander, Vice-President and General Manager
Double knit worsted fabrics of wool, man-made fibres and blends.

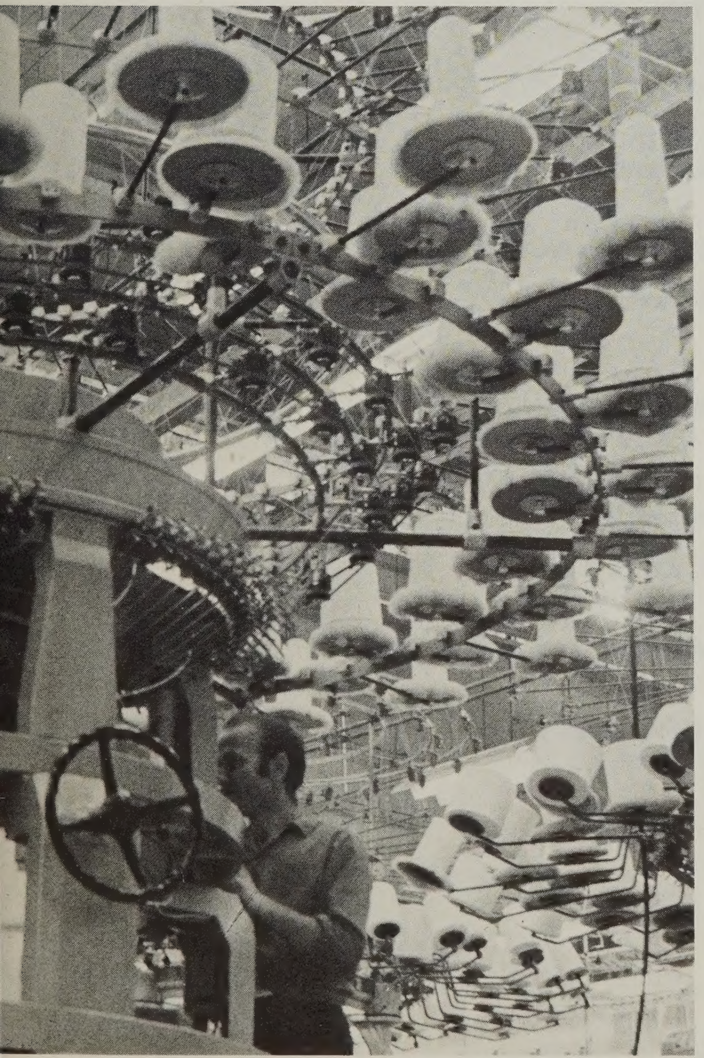
Penmans Limited
Robert E. Evans, President
Brantford, Ontario
Men's, ladies' and children's underwear in cotton and man-made blends and wool
Paris, Ontario
Fine hosiery and work socks, knitted industrial fabrics and single knit piece goods
St. Hyacinthe, Quebec
Men's, ladies' and children's underwear of cotton and man-made/cotton blends, outerwear and sportswear of cotton and man-made/cotton blends and mitts, paper maker's felts and carpets.

associated companies

Brianyl Ltd., Drummondville, Quebec
Fine denier textured yarns.

The Esmond Mills Limited, Granby, Quebec
Cotton and blend blankets, bedspreads, table fashions and napped fabrics.

Fiberworld Limited, Hawkesbury, Ontario
Polypropylene carpet backing.


double knits . . . a trend setter in the making

directors

*F. Ryland Daniels, Prescott, Ontario
Retired

Marcel Faribault, LL.D., Montreal
Chairman of the Board
Compagnie France-Film

J. Claude Hébert, Montreal
President and Chief Executive Officer
Warnock Hersey International Limited

*Edward F. King, Montreal
Chairman of the Board
Dominion Textile Limited

*D. Ross McMaster, Q.C., Montreal
McMaster, Meighen, Minnion, Patch & Cordeau
Barristers and Solicitors

Cal. N. Moisan, Montreal
President and General Manager
Standard Paper Box Ltd.

Arthur Pascal, Montreal
Secretary
The J. Pascal Hardware Co. Limited

*Ronald H. Perowne, Montreal
President and Chief Executive Officer
Dominion Textile Limited

Frank H. Sobey, Stellarton, Nova Scotia
Chairman of the Board
Sobeys Stores Limited

*Colin W. Webster, Montreal
Vice-Chairman of the Board
Canadian Fuel Marketers Ltd.

Kenneth A. White, Montreal
President
The Royal Trust Company

*Member of the Executive Committee

officers

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Chairman of the Board

Ronald H. Perowne,
President and Chief Executive Officer

Group Vice-Presidents

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Operations

Charles A. McCrae,
Finance

Arthur P. Earle,
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Vice-Presidents

Hubert Chatelois,
Grey Plants

W. Hood Gambrell,
Finishing Plants

Robert W. Kolb,
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Lawrence G. McDonough,
Manufacturing

George F. Michals,
Subsidiaries

Lester J. Smith,
Fibre Procurement

William J. Veitch,
Administrative Services—Operations

Robert M. Wilson,
Marketing

Clifton Beck,
Secretary

Francis P. Brady, Q.C.,
General Counsel

William N. Gagnon,
Treasurer

Alex R. McAslan,
Comptroller

G. William Webster,
Assistant Treasurer

any way you say it . . .

DT: an abbreviation familiar to employees

DTX: a stock exchange listing symbol

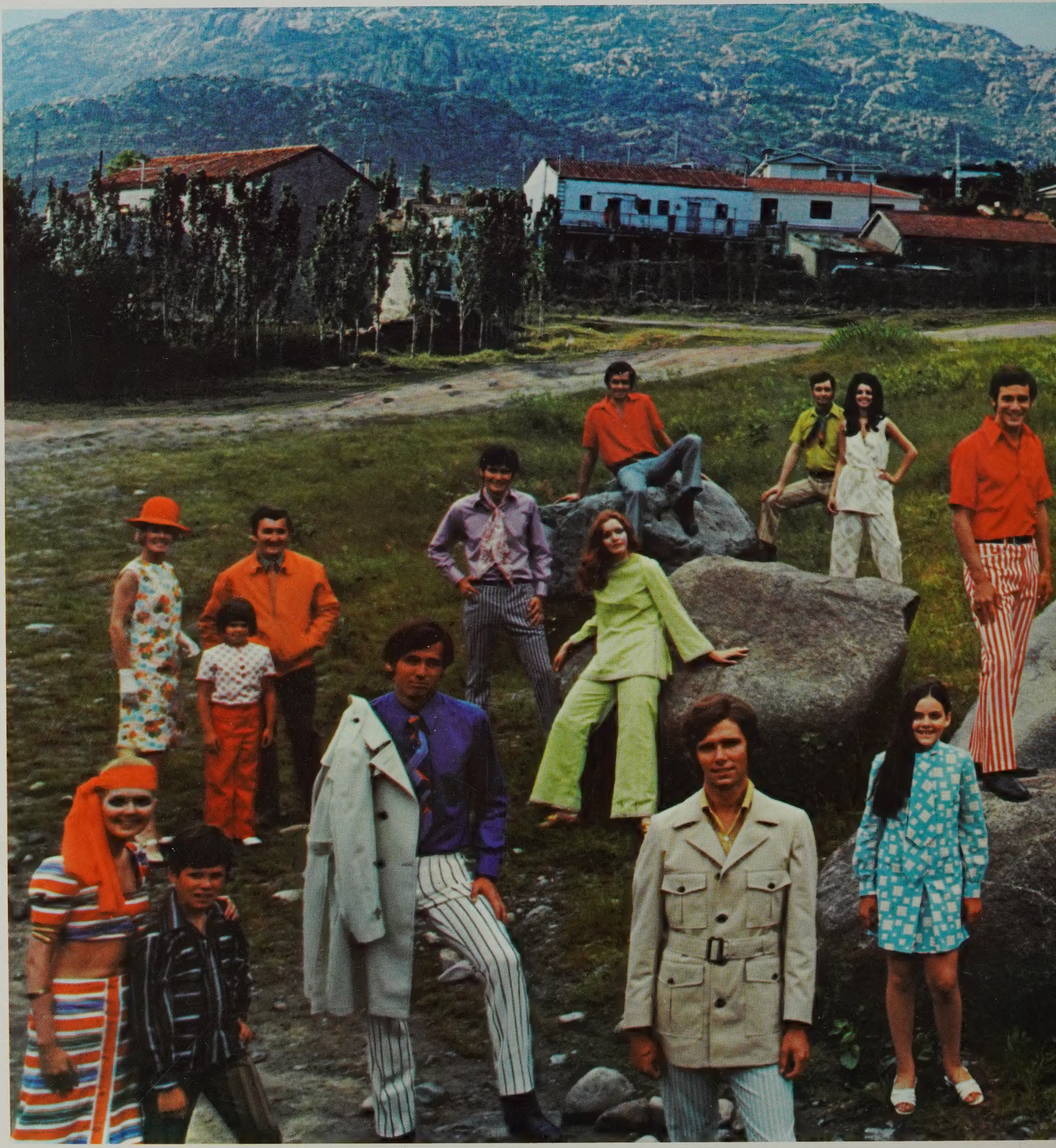
SHUTTLE: a cable address

DOMTEX: an unofficial way to shorten the name, mainly used by financial papers

TEX-MADE: a must when looking for quality in the most sophisticated range of textile products

DOMINION TEXTILE LIMITED: that's the real name!

. . . it all adds up to quality!



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